

**RHODE ISLAND RESOURCE RECOVERY CORPORATION  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

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## INDEPENDENT AUDITORS' REPORT

To the Board Members  
**Rhode Island Resource Recovery Corporation**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Rhode Island Resource Recovery Corporation, (a component unit of the State of Rhode Island), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. These procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Resource Recovery Corporation as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress – retiree healthcare plan on Pages 4-13 and 49, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of investments and deposits, net position, changes in net position, schedules of debt service to maturity, long-term debt-bonds only, changes in long-term debt, travel and entertainment on Pages 50 – 57, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements of investments and deposits, net position, changes in net position, schedules of debt service to maturity, long-term debt-bonds only, changes in long-term debt, travel and entertainment are fairly stated in all material respects in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2017 on our consideration of the Rhode Island Resource Recovery Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rhode Island Resource Recovery Corporation's internal control over financial reporting and compliance.

*Marcum LLP*

Providence, RI  
October 4, 2017

**RHODE ISLAND RESOURCE RECOVERY CORPORATION  
(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2017 AND 2016**

As management of the Rhode Island Resource Recovery Corporation (the "Corporation"), a component unit of the State of Rhode Island (the "State"), we provide readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation as of and for the years ended June 30, 2017 and 2016. This information should be read in conjunction with the Corporation's financial statements, which begin on Page 14.

**Introduction**

The Corporation is a quasi-public corporation, an instrumentality established in 1974 by an Act of the Rhode Island Legislature. The Corporation was created to provide and coordinate solid waste and recycling services to municipalities and businesses within Rhode Island. It is intended that the Corporation will receive sufficient revenue through solid waste tipping fees and the sale of recyclable products to be self-sufficient. The Corporation has the power to issue negotiable notes and bonds to achieve its corporate purpose, subject to the provisions of Rhode Island General Law 35-18.

The Corporation is a component unit of the State for financial reporting purposes and as such, the annual audited financial statements of the Corporation are included in the State's Annual Financial Report.

The powers of the Corporation are vested in a Board of Commissioners (the "Board"). As of July 2017, the Board consists of nine members, eight of which are public members appointed by the Governor with at least three being residents of the Town of Johnston (the "Town"), and the Director of Administration who serves as an ex-officio member. In making these appointments, the Governor gives due consideration to recommendations from the Mayor of the Town of Johnston, the League of Cities and Towns, representatives of commercial waste haulers and environmental advocacy organizations experienced in the field of recycling. Each commissioner serves until his or her successor is appointed by the Governor and confirmed by the Senate of the State.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2017 AND 2016**

**Overview of the Financial Statements (Continued)**

The Corporation engages only in business-type activities, that is, activities that are financed in whole or in part by charges to external parties for goods and services. As a result, the Corporation's basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows, and notes to the financial statements. Their financial statements are prepared in conformity with accounting principles accepted in the United States of America (GAAP) and also reported under Governmental Accounting Standards Board (GASB) as applied to the government units on an accrual basis for enterprise accounting. These basic financial statements are designed to provide the reader with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The statements of net position present information on all of the Corporation's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the Corporation's net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. The reader might also need to consider other non-financial factors when evaluating the Corporation's financial condition. The statements of revenues, expenses and changes in net position presents information on how the Corporation's net position changed during the years ended June 30, 2017 and 2016.

All assets and liabilities, and changes in net position, are reported using the accrual basis of accounting for governmental entities. Consequently, certain revenues and expenses reported in the statements of revenues, expenses and changes in net position will impact cash flows in future periods.

**Key Factors Influencing Results in 2017**

Continuing the very strong, positive operational momentum established in FY2016, FY2017 proved to be another extremely strong year operationally. Revenue from our core business, tipping, increased moderately. Commodity prices have started to recover and even with slightly lower volumes recycling revenues were up substantially. Overall revenues were up \$3.9M or 7%. Closure and post-closure expense had been a major negative factor in operational costs for the past several years; however in FY2017 the costs stabilized with our closure and post-closure liability decreasing slightly by \$300K to \$96.5M.

Overall, solid waste volumes were down slightly from 1.05M tons in FY2016 to 985K tons in FY2017. This reduction was due to waste limits (caps) on in-bound solid waste. While the overall tons were down, revenues increased by \$2.2M. This increase in revenue was a result of a price increase on commercial (non-municipal) customers effective July 1, 2016. Overall, tipping revenues increased from \$45.2M in FY16 to \$47.4M in FY17, an increase of \$2.2M or 5%.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2017 AND 2016**

**Key Factors Influencing Results in 2017 (Continued)**

Revenues from municipal solid waste increased moderately by \$.6M. Tonnage increased by 8K tons, from 308K in FY16 to 316K in FY17. Additionally, there was an increase in revenue resulting from contamination in the recycling loads. When contaminated, the recycling loads are landfilled as solid waste, usually at the 'over cap' rate of \$54.00 per ton. The base municipal tipping fee of \$32.00 had remained unchanged for nearly 25 years. Effective July 1, 2017 the municipal rate increased from \$32.00 to \$39.50 and the 'over cap' rate will increase from \$54 to \$67.

On the recycling business, FY17 commodity prices started to rebound after several years of low stagnant prices. Fiber led the way with an overall increase of over 40% year over year. Plastics and metals were somewhat of a mix. Metals were up slightly while plastics were down slightly, netting themselves out. Surprisingly, commodity volumes were down for the year by approximately 9K ton from 117K in FY2016 to 108K in FY2017. The reason for the decline are twofold: first, packaging is getting lighter; and second, and as previously mentioned, increased contamination is diverting recycling loads to the landfill. Municipal solid waste volumes were up 8K for the year, while recycling volumes were down by 9K. A clear indication of increased contamination.

Overall, total recycling revenues increased from \$10.0M in FY16 to \$11.7 million in FY17, an increase of \$1.7M or 17%. Even with this increase, the recycling facility was not able to generate a profit and as a result, the Corporation was not able to distribute profits back to cities and towns as part of our municipal recycling profit sharing program, for the second year in a row.

Overall, total operating expenses for FY17 decreased by \$5.8M when compared to FY16. Personnel costs remained flat at \$14M. Contractual services decreased by \$1.4M from \$10M in FY16 to \$8.6M in FY17. This was primarily due to the one-time transfer settlement to the host community. Repairs and maintenance decreased slightly by \$.2M. Other supplies and expenses increased by \$.6M. Grants and profit share to the municipalities were flat. Bad debt increased by \$150K as some allowances were adjusted up. Provision for landfill closure and post-closure were down substantially from \$13.6M in FY16 to \$4.9M in FY17. This decrease is due to an adjustment to the Closure and Post Closure liability in FY16. The FY16 liability had increased by \$9.3M as a result of increased costs associated with the new leachate pre-treatment facility. Now that these costs are incorporated into the liability, the amount remains stable. The liability in FY17 is now \$96.5M down very slightly from \$96.7M in FY16. This liability gets reviewed and recalculated every year and adjusted, if needed for any changes.

Non-operating revenues and expenses were impacted by the settlement of a lawsuit during FY16. There were no legal settlements in FY17. These settlements are reflected net of legal costs as non-operating expenses.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2017 AND 2016**

**Key Factors Influencing Results in 2017 (Continued)**

The Corporation's goal is to remain economically self-sufficient while continuing to generate cash reserves to finance approximately \$43M of major capital investments in fiscal years 2018 and 2019.

Challenges for FY18 and beyond are maintaining a culture of continuous improvement, increasing our recycling volumes, lowering recycling contamination rates and breadth of materials handled, staying within the 700 to 800 thousand tons per year of desired solid waste volume to maximize landfill life, and lastly doing everything we can to promote recycling. We are focused on our mission of running a safe, environmentally compliant, and cost effective operation for the benefit of all Rhode Islanders

**Key Factors Influencing Results in 2016**

Fiscal year 2016 continues the recent trend of strong Corporate operations. Revenue from core business, tipping and recycling, were up slightly at 3%, in total. Expenses, with the exception of landfill closure and post-closure care (non-cash operating costs), were down overall. The major factor that impacted the Corporation's financial results for the year ended June 30, 2016 (FY16) versus the year ended June 30, 2015 (FY15), were again closure and post-closure expenses.

While the overall economy in the State seems to be slightly improving, commercial solid waste volumes remained remarkably steady at 716,000 tons down from 723,000 tons in FY15. Commercial tipping revenues increased from \$32.5M in FY15 to \$36.0M in FY16, an increase of \$3.5M or 10.7%. The reason why revenue increased by 8% while tipping volume remained relatively steady is due to two price increases in calendar year 2015. The first increase was instituted on April 1, 2015, the second on December 1, 2015. Revenues and tonnage from municipal solid waste were flat at \$10.5M in revenues and 308,000 tons in FY16 vs. \$10.2M and 301,000 tons in FY15. The municipal tipping rate of \$32 has remained unchanged for approximately 25 years.

For the recycling business, FY16 overall commodity prices had a sharp decline throughout the year but seemed to stabilize and recover slightly by fiscal year end. Fiber being the one exception in which commodity prices remained stable. Recycling revenues decreased substantially from \$11.9M in FY15 to \$10.1M in FY16, a decrease of \$ 1.8M or 15.0%. In-bound recycling was flat at 118,000 tons in FY16 vs 119,000 tons in FY15. Due to the low commodity prices, our recycling operations suffered its first financial operating loss in recent memory. As a result there will be no profits to distribute as part of the profit share program we have with the cities and towns of Rhode Island.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**JUNE 30, 2017 AND 2016**

**Key Factors Influencing Results in 2016 (Continued)**

From an operating cost standpoint FY16 was very similar to FY 2015 with the exception of the non-cash adjustment for our closure/post closure expense as total operating expenses decreased \$9.1M from \$62.1M in FY15 to \$52.95M in FY16. While this amount seems dramatic, \$7.4M of the decrease is related to the liability associated with the closure and post closure care liability as required by Governmental Accounting Standards Board ("GASB") 18 and GASB 49. In FY15 a \$9.2M, one-time expense relating to leachate costs associated with Superfund site were expensed. While the variables for closure costs will vary yearly, we are hopeful large swings in year over year costs will not continue. The liability associated with closure post closure care increased from \$87.2M in FY15 to \$96.5M in FY16. The increase is due primarily with increased leachate flows associated with the Superfund portion of the landfill. The trust fund set up to cover these costs is now underfunded by \$5.7M as of June 30, 2016. The trust fund is currently funded on a quarterly basis. We expect this trend to continue in FY17 and expect to have the liability funded by the end of FY17. Other operating costs such as contractual services decreased approximately \$2M was a result of infrastructure projects transferred and shown as an expense to the Town of Johnston. Personnel costs, utilities and bad debt were relatively flat. Repairs and maintenance increased \$.5M due to increased shared costs associated with the gas system, other supplies and expenses decreased \$.5M, mostly due to lower fuel costs.

Non-operating revenues of \$5.2M include normal investment earnings and net settlement losses from lawsuits as well as a recovery of previously expensed estimates relating to legal settlements. Non-operating expenses included \$.9M in scheduled bond interest.

The Corporation's goal is to remain economically self-sufficient while continuing to generate cash reserves to finance over \$40M of major capital investments in fiscal years 2017 through 2018. These capital improvements, which can no longer be deferred due to statutory and regulatory requirements, include the construction of the initial areas of the Phase VI expansion, the continued construction of a new wastewater pretreatment facility to comply with more stringent discharge requirements and final capping expenses relating to Phase V of the landfill.

Finally, there were a number of major accomplishments in FY16 including:

- A lawsuit was awarded in our favor for \$2.8M plus interest allowing the Corporation to partially recover losses as identified in the Bureau of Audits forensic audit issued in September 2009. This verdict is under appeal and this award has not been reflected in our financial statements at June 30, 2016.
- Successfully implemented a Municipal Tip Fee Rule through the State of Rhode Island. 'Rule Making Process.' This rule will allow RIRRC to increase municipal pricing based on a mathematical calculation of cash needs.
- A commercial price increase on tipping fees was successfully implemented on December 1, 2015.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2017 AND 2016**

**Key Factors Influencing Results in 2016 (Continued)**

Challenges for FY17 and beyond are maintaining a culture of continuous improvement, increasing our recycling volumes, maintaining a pricing structure that supports the 700 to 800 thousand tons per year of desired solid waste volume to maximize landfill life. We are focused on our mission of running a safe, environmentally compliant, and cost effective operation for the benefit of all Rhode Islanders.

**Condensed Comparative Financial Information - In Thousands**

The following table summarizes the changes in certain balances in the statements of net position and the statements of revenues, expenses and changes in net position as of and for the years ended June 30, 2017, 2016 and 2015.

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Net position:			
Current assets	\$ 46,243	\$ 43,037	\$ 3,206
Capital assets, net	77,171	74,334	2,837
Other noncurrent assets	<u>101,656</u>	<u>97,753</u>	<u>3,903</u>
Total assets	<u>225,070</u>	<u>215,124</u>	<u>9,946</u>
Current liabilities	15,670	17,483	(1,813)
Long-term liabilities	<u>119,996</u>	<u>120,419</u>	<u>(423)</u>
Total liabilities	<u>135,666</u>	<u>137,902</u>	<u>(2,236)</u>
Net position	<u>\$ 89,404</u>	<u>\$ 77,222</u>	<u>\$ 12,182</u>
Components of net position:			
Invested in capital assets, net of related debt	\$ 60,045	\$ 54,332	\$ 5,713
Restricted	2,062	2,051	11
Unrestricted	<u>27,297</u>	<u>20,839</u>	<u>6,458</u>
	<u>\$ 89,404</u>	<u>\$ 77,222</u>	<u>\$ 12,182</u>
Changes in net position:			
Operating revenues	\$ 59,697	\$ 55,809	\$ 3,888
Operating expenses	<u>46,763</u>	<u>52,912</u>	<u>(6,149)</u>
Operating income	12,934	2,897	10,037
Non-operating (revenues) expenses, net	<u>752</u>	<u>(4,072)</u>	<u>(4,824)</u>
Change in net position	<u>\$ 12,182</u>	<u>\$ 6,969</u>	<u>\$ 5,213</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2017 AND 2016**

**Condensed Comparative Financial Information - In Thousands (Continued)**

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Net position:			
Current assets	\$ 43,037	\$ 44,656	\$ (1,619)
Capital assets, net	74,334	70,398	3,936
Other noncurrent assets	97,753	92,550	5,203
Total assets	<u>215,124</u>	<u>207,604</u>	<u>7,520</u>
Current liabilities	17,483	25,756	(8,273)
Long-term liabilities	120,419	111,595	8,824
Total liabilities	<u>137,902</u>	<u>137,351</u>	<u>551</u>
Net position	<u>\$ 77,222</u>	<u>\$ 70,253</u>	<u>\$ 6,969</u>
Components of net position:			
Invested in capital assets, net of related debt	\$ 54,332	\$ 48,509	\$ 5,823
Restricted	2,051	2,064	(13)
Unrestricted	20,839	19,680	1,159
\$	<u>\$ 77,222</u>	<u>\$ 70,253</u>	<u>\$ 6,969</u>
Changes in net position:			
Operating revenues	\$ 55,809	\$ 54,041	\$ 1,768
Operating expenses	52,912	62,051	(9,139)
Operating income	2,897	(8,010)	10,907
Non-operating (revenues) expenses, net	(4,072)	(2,669)	(1,403)
Change in net position	<u>\$ 6,969</u>	<u>\$ (5,341)</u>	<u>\$ 12,310</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2017 AND 2016**

**FY17 Financial Highlights and Analysis**

Several factors, both operating and non-operating impacted the Corporation's financial results for FY17. Tipping fees, which account for nearly 80% of our operating revenue, continue to be very strong. Tonnage from solid waste for FY17 was approximately 985K. This amount is above the budgeted estimate of 850K, but below the FY16 volume of 1.05M. The reason for the decline from FY16 is that in FY17, RIRRC instituted volumes 'caps' of 60,000 tons per fiscal year. This was needed in order to attempt to lower the inbound tonnage into the 750K to 800K range as approved in the Corporation's master plan and to provide for trash disposal until 2038. While the volume caps did have some success, RIRRC is still receiving volume in excess of that which was recommended in the master plan. We believe this high volume is a result of limited disposal options in the southern New England area. We also believe this will continue as existing landfills continue to close with no landfills opening in the region. Even with the slightly lower volumes for FY17, tipping revenues increased \$2.2M to \$47.4M. This was a result of a commercial price increase as of July 1, 2016. An additional price increase was initiated July 1, 2017 in another attempt to curb volume. Municipal volume increased from 308K in FY16 to 317K in FY17. The increase was predominately a result of contamination in recycling loads which were then landfilled. Municipal revenues increased from \$10.5M in FY16 to \$11.1M in FY17 or 5.82%.

Recycling revenues, which account for nearly 20% of operating revenue increased from \$10.1M in FY16 to \$11.7M in FY17. The increase was led by the price of fiber which increased an average of 40% for the year. Fiber revenues increased from \$4.5M in FY16 to \$6.3M in FY17. On average, other recycling commodities were steady.

Overall, total operating revenues increased from \$55.8M in FY16 to \$59.7M in FY17, approximately 7%.

When comparing FY17 to FY16, operating costs were consistent year over year. Personnel costs were flat at \$14.0M as compared to \$13.9M in FY16. Contractual services decreased from \$10.0M in FY16 to \$8.6M in FY17. While this may seem significant, in FY16 there was a one-time \$2M settlement agreement to the Host Community. Accounting for that one-time transfer, costs were flat. Utilities decreased slightly by 156K to 1.3M in FY17. Other supplies and expenses increased from \$3.2M to \$3.8M in FY17. The increase can be attributed to the purchase of aggregate materials and adjustments to inventory. Repairs and maintenance decreased slightly by \$.2M to \$3.5M. Grants and profit share to municipalities were steady at \$.3M. There was no profit share back to municipalities for FY17 or FY16, as commodity prices have not completely recovered from the downturn and the Materials Recycling Center has not yet begun to operate at a profit. The provision for landfill closure and post-closure care and pollution remediation obligation had a decrease of \$7.9M as compared to FY16. The decrease was a result of the 'net' effect of a smaller adjustment on the closure/post closure obligation - \$9.3M in FY16 as compared to \$.7M in FY17 or a decrease of \$8.6M. Depreciation, depletion and amortization increased by \$3.8M in FY17. The increase is a result of the increase in the depletion rate from \$.47 to \$6.00 when cell VI was opened in January 2016. For FY17, all tons landfilled were deposited in Phase VI at the \$6.00 per ton rate.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2017 AND 2016**

**FY17 Financial Highlights and Analysis (Continued)**

Non-operating revenues and expenses decreased by over \$4M due to unrealized losses to the closure/post closure fund for FY17 of \$1.7M and a \$2.2M one-time revenue in FY16 for recovery of some previously written off expenses.

On the balance sheet side, Construction in progress increased from \$2.7M in FY16 to \$7M in FY17 with the Phase VI (Area 2) cell construction and Pump-station upgrades under construction. We estimate that total costs will be in excess of \$120M for the full construction of all cells in Phase VI, currently estimated to be completed sometime in the early 2030's. Refer to footnote 4 – capital assets for additional detail.

Assets held in trust increased by \$3.9M to \$94.7M. This increase was due to quarterly transfers into the trust based on tons received. The closure cost rate is calculated yearly based on assumptions in the closure/post closure liability calculation – the FY17 rate per ton was \$4.67. Investment earnings were offset by unrealized losses and ended up about break even.

Bonds payable decreased by \$3.8M from \$29.1M in FY16 to \$25.3M in FY17 due to normal debt service payments. There were no new bonds or other debt issued in FY17. Refer to footnote 7 for more information on the Corporations long-term obligations.

At June 30, 2017, the net position totaled \$89.4M compared to \$77.2M as of June 30, 2016, an increase of \$12.2M. The increase was primarily attributable to better than expected operating revenue generated by commercial tipping fees as a result of strong inbound volume and price increases.

**FY16 Financial Highlights and Analysis**

There were several factors, both operating and non-operating, that impacted the Corporation's financial results for FY16. On the revenue side, the Corporation had a strong year in its core business of tipping fees and recycling services. Charges for services, principally tipping, increased \$3.5M or 10.7%. Recycling revenues had a very difficult year decreasing \$1.8M, down 15%. Total operating revenue increased \$1.8M or 3.3% compared to FY15. Operating costs were overall very similar compared to FY15 with the exception of landfill closure and post-closure care expenses (non-cash operating expenses). A large decrease contractual services, \$2.5M is primarily attributable to the non-reoccurring transfer to the Town of Johnston for infrastructure, i.e. pump stations and roads. Personnel costs increased \$.2M primarily due to merit increases. Utilities were down \$.2M due to saving in electricity costs as a result of a favorable bid award. Repairs and maintenance increased \$.5M due to increase operating costs as a result of shared O&M expenses in its gas operations. Other supplies and expense were down overall, mostly due to lower fuel costs. Grants to municipalities decreased by \$.5M. This decrease is a result of a loss at the Corporations materials recycling facility, the first in recent memory. As a result of the loss, the 50%/50% profit share distributed to municipalities was not

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**JUNE 30, 2017 AND 2016**

**FY16 Financial Highlights and Analysis (Continued)**

distributed. By far the biggest impact on the FY16 financial is the large decrease in landfill closure and post-closure care expenses (non-cash). This decrease in liability is \$7.4M. This large decrease in liability is due to one-time costs associated with the superfund site in FY15, which according to accounting principles generally accepted in the United States of America are expensed in full rather than amortized. The closure trust fund is now underfunded by approximately \$5.7M, which will be addressed in FY2017.

Assets held in trust increased by \$6.5M to \$90.8M. This increase is a result of quarterly transfers into the trust fund based on the tons received and the amortization rate of \$4.17 as calculated in our annual closure/post closure liability computation of \$4.0M. The additional \$2.5M was a result of investment earnings and unrealized gains.

Construction in progress decreased by \$12.9M. This decrease was a result of construction costs for Phase VI, cell 1 of the landfill that went into service in January 2016. These costs were transferred to capital assets and will now be depleted on a per ton basis. Refer to footnote 4 – capital assets for additional detail.

Bonds and Notes payable decreased by \$2.0M. This decrease was the net effect of \$4.0M in bond and note debt service payments and an increase in notes payable of \$2M as a result of a legal settlement with the Town of Johnston. Refer to Note 7 for more information on the Corporation's long-term obligations.

Non-operating revenues were impacted by the settlement of a lawsuit during FY16 totaling \$.35M and recovery of previously written off expenses associated with legal cost estimates of \$2.2M. Non-operating expenses include interest expense of \$.9M for scheduled debt service.

At June 30, 2016, net assets total \$77.2M compared to \$70.3M as of June 30, 2015, an increase of \$6.9M. The increase was attributable to the adjustment to strong revenues and investment earnings.

**Request for Information**

This financial report is designed to provide a general overview of the Corporation's finances for all those interested in that information. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Rhode Island Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919-4512. Additional information is also available on our website at [www.rirrc.org](http://www.rirrc.org).

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**STATEMENTS OF NET POSITION**

**JUNE 30, 2017 AND 2016**

	2017	2016
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 35,227,642	\$ 31,955,330
Receivables, net of allowance	7,571,253	7,041,116
Inventories	2,982,164	3,602,768
Prepaid Expenses	461,865	437,493
<b>Total Current Assets</b>	46,242,924	43,036,707
<b>Noncurrent Assets</b>		
Restricted Assets:		
Cash and cash equivalents	2,483,736	2,473,206
Assets held in trust	94,676,376	90,784,649
Land held for sale	3,886,564	3,886,564
Capital Assets:		
Non-depreciable:		
Land used in operations	9,354,983	9,354,983
Construction in progress	7,019,722	2,729,504
Depreciable:		
Capital assets, depreciable net	60,796,138	62,249,352
Other assets	609,400	609,400
<b>Total Noncurrent Assets</b>	178,826,919	172,087,658
<b>Total Assets</b>	225,069,843	215,124,365

*The accompanying notes are an integral part of these financial statements.*

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**STATEMENTS OF NET POSITION (CONTINUED)**

**JUNE 30, 2017 AND 2016**

	2017	2016
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	10,317,677	8,220,553
Current portion:		
Landfill closure and post-closure care	33,812	3,775,626
Pollution remediation obligations	1,135,463	1,411,611
Current portion of long-term debt	4,182,789	4,075,332
<b>Total Current Liabilities</b>	<b>15,669,741</b>	<b>17,483,122</b>
<b>Noncurrent Liabilities</b>		
Net OPEB obligations	683,497	664,044
Long term portion:		
Landfill closure and post-closure care	74,242,531	66,017,724
Pollution remediation obligations	21,042,175	25,527,533
Notes payable	2,642,877	2,892,877
Bonds payable	21,384,740	25,317,529
<b>Total Noncurrent Liabilities</b>	<b>119,995,820</b>	<b>120,419,707</b>
<b>Total Liabilities</b>	<b>135,665,561</b>	<b>137,902,829</b>
<b>Net Position</b>		
Net investment in capital assets	60,045,498	54,331,596
Restricted	2,062,011	2,051,481
Unrestricted	27,296,773	20,838,459
<b>Total Net Position</b>	<b>\$ 89,404,282</b>	<b>\$ 77,221,536</b>

*The accompanying notes are an integral part of these financial statements.*

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
<b>Operating Revenues</b>		
Charges for services, principally tipping fees	\$ 47,397,098	\$ 45,183,923
Recycling	11,737,038	10,056,393
Other operating revenues	563,146	569,096
<b>Total Operating Revenues</b>	<b>59,697,282</b>	<b>55,809,412</b>
<b>Operating Expenses</b>		
Personnel costs	14,019,448	13,883,406
Contractual services	8,285,886	10,014,298
Utilities	1,326,363	1,482,409
Repairs and maintenance	3,456,654	3,685,265
Other supplies and expenses	3,789,474	3,231,968
Grants to municipalities for recycling	264,538	298,970
Bad debts	204,681	56,412
Provision for landfill closure and post-closure care and pollution remediation obligations	4,951,853	13,575,957
Depreciation, depletion and amortization	10,464,520	6,683,250
<b>Total Operating Expenses</b>	<b>46,763,417</b>	<b>52,911,935</b>
<b>Operating Income</b>	<b>12,933,865</b>	<b>2,897,477</b>
<b>Non-Operating Revenues (Expenses)</b>		
Interest expense	(763,898)	(866,425)
Interest income	1,843,717	2,262,163
Investment income (loss)	(1,721,355)	782,579
Loss on settlement, net	(300,000)	(350,000)
Recovery of expenses	--	2,244,787
Gain (Loss) on disposal of assets, net	190,417	(1,568)
<b>Net Non-Operating (Expenses) Revenues</b>	<b>(751,119)</b>	<b>4,071,536</b>
<b>Change in Net Position</b>	<b>12,182,746</b>	<b>6,969,013</b>
<b>Net Position, Beginning of Year</b>	<b>77,221,536</b>	<b>70,252,523</b>
<b>Net Position, End of Year</b>	<b>\$ 89,404,282</b>	<b>\$ 77,221,536</b>

*The accompanying notes are an integral part of these financial statements.*

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
<b>Cash Fows from Operating Activities</b>		
Payments received from providing services	\$ 58,603,999	\$ 56,418,292
Cash receipts from other operating revenue	563,146	569,096
Cash received from advances	--	75,965
Payments to suppliers for goods and services	(15,498,800)	(22,055,911)
Payments to employees for services	(13,892,188)	(13,979,594)
Payments in connection with the Host Community Agreement	(4,018,656)	(5,582,084)
Payments to municipalities for recycling grants	(264,540)	(298,970)
<b>Net Cash Provided by Operating Activities</b>	<u>25,492,961</u>	<u>15,146,794</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from sale of assets	190,417	--
Payments for capital assets and deferred costs	(13,491,941)	(10,564,010)
Interest paid on notes and bonds payable	(763,898)	(866,425)
Principal paid on notes and bonds payable	(4,075,332)	(3,720,810)
Payments of legal settlement, net	(300,000)	(350,000)
Recovery of expenses	--	2,244,787
<b>Net Cash Used In Capital and Related Financing Activities</b>	<u>(18,440,754)</u>	<u>(13,256,458)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(8,768,933)	(310,643,800)
Maturity of investments	4,877,206	304,178,440
Interest and investment income	122,362	3,044,742
<b>Net Cash Used in Investing Activities</b>	<u>(3,769,365)</u>	<u>(3,420,618)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	3,282,842	(1,530,282)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>34,428,536</u>	<u>35,958,818</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 37,711,378</u>	<u>\$ 34,428,536</u>

*The accompanying notes are an integral part of these financial statements.*

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 12,933,865	\$ 2,897,477
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	10,464,520	6,683,250
Gain (Loss) on disposal and sale of assets	190,417	(1,568)
Changes in assest and liabilities		
Accounts receivable	(530,137)	1,177,976
Advances	--	75,965
Inventories	620,604	(126,460)
Prepaid expenses	(24,372)	167,842
Accounts payable	2,097,124	(6,783,170)
Net OPEB obligation	19,453	12,486
Landfill closure and post-closure care and pollution remediation obligation	(278,513)	11,042,996
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 25,492,961</u>	<u>\$ 15,146,794</u>
<b>Cash and Cash Equivalents as reported in the financial statements consist of:</b>		
Unrestricted:		
Cash and cash equivalents	\$ 35,227,642	\$ 31,955,330
Restricted:		
Cash and cash equivalents	2,483,736	2,473,206
<b>Total Cash and Cash Equivalents</b>	<u>\$ 37,711,378</u>	<u>\$ 34,428,536</u>

*The accompanying notes are an integral part of these financial statements.*

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***ORGANIZATION***

Rhode Island Resource Recovery Corporation (the “Corporation”) is a quasi-public corporation and a public instrumentality established in 1974 by an Act of the Rhode Island Legislature. The Corporation was created to provide and coordinate solid waste management services to municipalities and persons within the State of Rhode Island (the “State”). The Corporation’s enabling statute has subsequently been amended to allow for the acquisition and development of certain land located near the existing landfill in the Town of Johnston, Rhode Island. The Corporation’s revenues are derived principally from tipping fees charged for the disposal of solid waste and from the sale of recyclable products. It is intended that the Corporation will receive sufficient revenue through sale of recyclable products and fees for its services to be financially self-sufficient. The Corporation grants credit to its customers, primarily commercial entities and municipalities within the State. The Corporation has the power to issue negotiable notes and bonds to achieve its corporate purpose, subject to the provisions of Rhode Island General Law 35-18.

The Corporation is a component unit of the State for financial reporting purposes and, as such, the financial statements of the Corporation are included in the State’s Comprehensive Annual Financial Report.

The Corporation is exempt from federal and state income taxes.

*Financial statement presentation, measurement focus and basis of accounting:*

The Corporation engages only in business-type activities. Business-type activities are activities that are financed in whole or in part by fees charged to external parties.

The Corporation uses the economic resources measurement focus and accrual basis of accounting. The Corporation applies all pronouncements of the Governmental Accounting Standards Board.

The Corporation distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Corporation’s principal ongoing operations. Operating expenses include the cost of services provided, administrative expenses, and depreciation expense. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

*USE OF ESTIMATES*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and assumptions have been made in the areas of landfill closure and post-closure care costs, pollution remediation costs, landfill capacity and depletion rates, net realizable value and use of land, particularly eminent domain properties, and the payable due Broadrock Gas Services and the City of Cranston. Actual results could differ from estimates.

*CASH AND CASH EQUIVALENTS*

The Corporation considers all highly liquid investments, such as repurchase agreements and money market accounts, with a maturity of three months or less when purchased to be cash equivalents.

*ACCOUNTS RECEIVABLE*

Receivables are reported at their gross values when earned and are reduced by the estimated portion that is expected to be uncollectible. This estimate is based on history, industry trends and current information regarding the credit worthiness of the debtors. The Corporation has contracts with most of its customers related to pricing, payment terms and general requirements. The Corporation does not require collateral from any of its customers. The Corporation has established an allowance for doubtful accounts receivable of \$979,000 and \$1,105,000 as of June 30, 2017 and 2016, respectively.

*INVESTMENTS*

Investments, including restricted investments, are recorded at fair value or at amortized cost which approximates fair value. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction involving market participants at the measurement date.

*INVENTORIES*

Inventories primarily consist of spare parts and materials and are stated at cost.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

*ASSETS HELD IN TRUST*

Restricted investments held in trust are held by independent trustees for purposes of meeting the financial requirements of landfill closure and post-closure care costs and pollution remediation costs. Investments are classified collectively as long-term despite the individual maturities, duration, or classification of the investments, since all are intended to fund the payment of long-term liabilities.

*RESTRICTED ASSETS*

Unexpended proceeds from the sale of revenue bonds of \$2,062,011 and \$2,051,481 for June 30, 2017 and 2016, respectively, whose use is specified or limited by bond resolutions, enabling legislation, laws or third parties are classified as restricted assets.

*CAPITAL ASSETS AND DEPRECIATION*

Capital assets used in primary operations are stated at cost. The Corporation defines capital assets as assets with an initial, individual cost of more than \$10,000 or repairs in excess of 10% of the assets original cost and having initial life of one year or greater. Ordinary maintenance and repair expenses are charged directly to operations as incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Land improvements	6
Buildings and improvements	15-30
Machinery and equipment	5-10
Sewer and leachate collection systems	30
Furniture and equipment	5-10
Signs, fences and roads	3-5

The cost of the landfill and land improvements is being depleted over the estimated useful capacity of the respective sites (Note 10).

Land acquired through eminent domain intended for resale is stated at the lower of cost or net realizable value. The cost of property acquired through eminent domain not intended for resale is being amortized over the estimated life of the currently licensed landfill (Note 5).

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

***DEFERRED CHARGES***

Deferred charges, which are included in construction in progress on the statement of net position, include legal fees, permitting and engineering costs associated with the licensing, development (siting) or expansion of additional landfill phases and certain costs incurred to ready additional landfill phases for use. These costs are deferred and will be recoverable through future revenue or will benefit future operations. An application for licensure of Phase VI was submitted to the Rhode Island Department of Environmental Management (“RIDEM”) and was granted during fiscal year 2011. Phase VI opened in December 2015.

***LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS***

The Corporation provides for future closure and post-closure care costs of the various phases of the landfill as those phases are utilized. As additional phases are licensed and utilized (Note 10), additional closure and post-closure care costs are provided for based upon management’s and outside engineers’ estimates of such costs and the percentage of capacity used to date.

***POLLUTION REMEDIATION OBLIGATIONS***

The Corporation provides for pollution remediation obligations when it becomes obligated for remediation and the costs are estimable. The Corporation undertakes periodic inspections of its properties (Note 5) to determine whether any potential liability relating to environmental matters exists. Pollution remediation obligations are measured based on the expected future cash flows required to remediate the property and recorded at current value of costs.

***NET POSITION***

The Corporation’s net position consists of the following three components:

Net investment in capital assets - represents the capital assets, reduced by accumulated depreciation and by the outstanding balances of bonds and other debt used to acquire, construct or improve these assets.

Restricted - those assets that have been limited to uses specified either externally by creditors, contributors, laws or regulations of other governments or internally by enabling legislation or law.

Unrestricted - a residual category for the balance of net position.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

*NET POSITION (CONTINUED)*

When both restricted and unrestricted resources are available for use, it is the Corporation's practice to use restricted resources first, then unrestricted.

**NOTE 2 – DEPOSITS**

The carrying amount of the Corporation's cash deposits, consisting of checking accounts, money market accounts and certificates of deposit totaled \$4,725,529 and \$2,689,607 as of June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, the bank balance for these accounts totaled \$4,898,668 and \$2,950,756, respectively.

Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. In accordance with Chapter 35-10.1 of the Rhode Island General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, which are time deposits with maturities greater than sixty (60) days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, regardless of maturity. None of the cash deposits of the Corporation were required to be collateralized as of June 30, 2017 and 2016 pursuant to Chapter 35-10.1 of the Rhode Island General Laws.

The Corporation's policy for custodial credit risk is consistent with Chapter 35-10.1 of the Rhode Island General Laws. The Corporation's deposits are held in depository institutions, which maintain, segregated from its other assets, eligible collateral in an amount equal to a certain percentage of its deposits. The collateral is kept in the custody of the trust department of the pledging institution. As of June 30, 2017, \$401,164 of the Corporation's cash deposits was uninsured and uncollateralized. As of June 30, 2016, all of the Corporation's cash deposits were insured and collateralized.

Investments under a repurchase agreement and in commercial paper totaling \$34,575,466 and \$31,739,436 as of June 30, 2017 and 2016, respectively, are included in cash and cash equivalents in the accompanying statement of net assets. For purposes of disclosure, such amounts are considered investments and are included in the disclosure in Note 3.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 2 – DEPOSITS (CONTINUED)**

A reconciliation of the Corporation's cash deposits as of June 30, 2017 and 2016 are as follows:

	2017	2016
Cash and cash equivalents	\$ 652,176	\$ 215,895
Restricted cash and cash equivalents	2,483,736	2,473,206
Restricted cash held in trust	<u>1,589,617</u>	<u>506</u>
Deposits	<u>\$ 4,725,529</u>	<u>\$ 2,689,607</u>

**NOTE 3 – INVESTMENTS**

The Corporation's general investment policy limits the investment of corporate funds to the following financial instruments: (1) U.S. Treasury notes/bills; (2) U.S. Government-backed obligations; (3) obligations of the State, and agencies or political subdivisions thereof; (4) obligations of any other state, its agencies or political subdivisions thereof, that have been assigned an investment grade rating by at least one nationally recognized rating agency; (5) repurchase agreements backed by collateral consisting of instruments identified in (1) or (2) above; and (6) deposits, to the extent that they are insured in financial institutions which are incorporated in, or chartered by, the State. For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation does not have a policy for custodial credit risk beyond that which is required under Rhode Island General Laws. Rhode Island General Laws permit the Corporation to invest any funds not required for immediate use, at the discretion of the Corporation. The Corporation's investments, excluding amounts invested under the repurchase agreements, were not subject to custodial credit risk as they are held by a trustee in the Corporation's name. The Corporation's investments under the repurchase agreements were exposed to custodial credit risk, as the underlying securities are held by the investment's counterparty, not in the name of the Corporation. The investments under the repurchase agreements were collateralized by U.S. Government securities held by the investment's counterparty, not in the name of the Corporation.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**NOTE 3 – INVESTMENTS (CONTINUED)**

The Corporation's investments as of June 30, 2017 and 2016 consist of the following:

	Fair Value		Weighted Average Maturity (Years)	
	2017	2016	2017	2016
Repurchase Agreement	\$ 34,575,466	\$ 31,739,435	Daily	Daily
Short-Term Bond Portfolio	47,176,115	44,985,087	2.90 yrs	2.80 yrs
TIPS Portfolio	23,503,206	22,529,863	2.60 yrs	2.60 yrs
Inter.-Term Bond Portfolio	<u>23,997,055</u>	<u>23,269,699</u>	7.30 yrs	7.30 yrs
 Total Fair Value	 <u>\$ 129,251,842</u>	 <u>\$ 122,524,084</u>		

A reconciliation of the Corporation's investments as of June 30, 2017 and 2016 are as follows:

	2017	2016
Cash and equivalents	\$ 34,575,466	\$ 31,739,436
Cash and cash equivalents - Held in trust	1,589,617	506
Investments - Held in trust	<u>93,086,759</u>	<u>90,784,142</u>
 Total	 <u>\$ 129,251,842</u>	 <u>\$ 122,524,084</u>

Average ratings of the investments comprising the debt related securities above, as determined by Moody's are as follows, at June 30, 2017:

	Repurchase Agreement	Institutional Fund Money Market	Fixed Income Securities	Total
Treasury/Agency	\$ 34,575,466	\$ 1,589,617	\$ --	\$ 36,165,083
AAA	--	--	68,967,817	68,967,817
AA	--	--	3,259,902	3,259,902
A	--	--	9,392,786	9,392,786
BBB	--	--	11,466,254	11,466,254
	<u>\$ 34,575,466</u>	<u>\$ 1,589,617</u>	<u>\$ 93,086,759</u>	<u>\$ 129,251,842</u>

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**NOTE 3 – INVESTMENTS (CONTINUED)**

Average ratings of the investments comprising the debt related securities above, as determined by Moody's are as follows, at June 30, 2016:

	Repurchase Agreement	Institutional Fund Money Market	Fixed Income Securities	Total
Treasury/Agency	\$ 31,739,436	\$ 506	\$ --	\$ 31,739,942
AAA	--	--	66,841,873	66,841,873
AA	--	--	3,136,891	3,136,891
A	--	--	9,620,058	9,620,058
BBB	--	--	11,185,320	11,185,320
	<u>\$ 31,739,436</u>	<u>\$ 506</u>	<u>\$ 90,784,142</u>	<u>\$ 122,524,084</u>

***RISKS***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in a debt instrument. The Corporation relies on the expertise of the independent trustees to manage the Corporation's interest rate risk. The trustees' policy concerning interest rate risk is based upon the concept that a properly diversified bond portfolio is the key to limiting overall risk exposure, generating a predictable stream of income and preserving capital. The trustees seek to limit interest rate risk in any kind of interest rate environment through managing the portfolio's maturity and duration.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 3 – INVESTMENTS (CONTINUED)**

***RISKS (CONTINUED)***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Corporation has no investment policy that would further limit its investment choices beyond those limited by Rhode Island General Laws and the Master Indenture of Trust related to revenue bonds issued by the Corporation. The Corporation is permitted to invest in obligations of the United States, including its instrumentalities and agencies; in obligations of any state or of any political subdivision, authority or agency thereof, provided such obligations are rated within one of the top two rating categories of any recognized rating service; or in obligations of the State of Rhode Island or of any political subdivision thereof, provided such obligations are rated within one of the top three rating categories of any recognized rating service, and corporate bonds, notes and/or paper with an investment grade rating A3 or higher. The Corporation's investments under the repurchase agreements were unrated as of June 30, 2017, however, collateralized at 102% while in overnight status. FDIC insurance is provided up to \$250,000 per tax identification number. Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer regardless of its credit history. The Corporation relies on the expertise of the independent trustees to manage the trust funds' concentration of credit risk. The trustees' policy concerning concentration of credit risk recognizes the importance of portfolio diversification.

***RESTRICTED ASSETS HELD IN TRUST***

The Corporation's restricted assets held in trust are held and managed by independent trustees for purposes of funding future landfill closure and post-closure care costs and pollution remediation costs (Note 10).

The Corporation has established an investment policy over these funds whereby the primary objective is the attainment of a high degree of income while considering safety of principal. The Corporation's policy states that safety, liquidity and interest rate risk standards should not be compromised in favor of increased rate of return. Currently, the assets are invested in government-backed securities. These bond funds are allocated on a 25% TIPS, 25% Intermediate-term investments grade and 50% Short-term investment grade as directed by the board approved investment policy. Investment in bonds are not insured.

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**NOTE 3 – INVESTMENTS (CONTINUED)**

*INVESTMENTS MEASURED AT FAIR VALUE*

The Corporation categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Corporation has the following recurring fair value measurements as of June 30, 2017:

Mutual funds invested in U.S. Governments backed securities of \$93.1 million are valued using quoted market prices (Level 1 inputs)

*RESTRICTED ASSETS*

Restricted assets as of June 30, 2017 and 2016, consisting of cash and cash equivalents, are restricted as follows:

	<u>2017</u>	<u>2016</u>
Mandated by Bond Indentures:		
Project Account - Series 2013	<u>\$ 2,483,736</u>	<u>\$ 2,473,206</u>

The Project Account contains the proceeds of the Corporation's 2013 bond issuance and is used for the payment of eligible project disbursements.

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**NOTE 4 – CAPITAL ASSETS**

The following is a summary of changes in capital assets (excluding land held for sale) for the year ended June 30, 2017:

	Balance July 1, 2016	Increases	Decrease	Balance June 30, 2017
Capital assets being depreciated:				
Land, residential buffer	\$ 4,210,899	\$ --	\$ (3)	\$ 4,210,896
Capital improvements	105,786,434	7,052,212	--	112,838,646
Automobiles and trucks	1,877,129	--	(88,952)	1,788,177
Buildings and improvements	67,164,853	901,533	(108,500)	67,957,886
Computers and equipment	49,881,285	1,148,095	(3,456,466)	47,572,914
Other depreciable property	<u>5,562,904</u>	<u>167,795</u>	<u>(10,682)</u>	<u>5,720,017</u>
Total capital assets being depreciated	<u>234,483,504</u>	<u>9,269,635</u>	<u>(3,664,603)</u>	<u>240,088,536</u>
Less accumulated depreciation and depletion:				
Land, residential buffer	(4,210,896)	--	--	(4,210,896)
Capital improvements	(85,164,709)	(6,063,529)	--	(91,228,238)
Automobiles and trucks	(1,676,181)	(67,831)	88,952	(1,655,060)
Buildings and improvements	(38,287,287)	(1,851,781)	95,399	(40,043,669)
Computers and equipment	(38,924,530)	(2,366,584)	3,317,419	(37,973,695)
Other depreciable property	<u>(3,970,549)</u>	<u>(210,291)</u>	<u>--</u>	<u>(4,180,840)</u>
Total accumulated depreciation and depletion	<u>(172,234,152)</u>	<u>(10,560,016)</u>	<u>3,501,770</u>	<u>(179,292,398)</u>
Total capital assets being depreciated, net	62,249,352	(1,290,381)	(162,833)	60,796,138
Non-depreciable capital assets:				
Land used in operations	9,354,983	--	--	9,354,983
Construction in progress	<u>2,729,504</u>	<u>13,803,082</u>	<u>(9,512,864)</u>	<u>7,019,722</u>
Capital assets, net	<u>\$ 74,333,839</u>	<u>\$ 12,512,701</u>	<u>\$ (9,675,697)</u>	<u>\$ 77,170,843</u>

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**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

The following is a summary of changes in capital assets for the year ended June 30, 2016:

	Balance July 1, 2015	Increases	Decrease	Balance June 30, 2016
Capital assets being depreciated:				
Land, residential buffer	\$ 4,210,899	\$ --	\$ --	\$ 4,210,899
Capital improvements	84,814,917	20,993,367	(21,850)	105,786,434
Automobiles and trucks	1,775,591	336,039	(234,501)	1,877,129
Buildings and improvements	66,983,221	509,111	(327,479)	67,164,853
Computers and equipment	48,497,869	2,043,019	(659,603)	49,881,285
Other depreciable property	<u>5,002,641</u>	<u>1,024,833</u>	<u>(464,571)</u>	<u>5,562,903</u>
Total capital assets being depreciated	<u>211,285,138</u>	<u>24,906,369</u>	<u>(1,708,004)</u>	<u>234,483,503</u>
Less accumulated depreciation and depletion:				
Land, residential buffer	(4,210,896)	--	--	(4,210,896)
Capital improvements	(83,052,055)	(2,112,653)	--	(85,164,709)
Automobiles and trucks	(1,614,872)	(74,519)	13,210	(1,676,181)
Buildings and improvements	(36,348,997)	(2,042,588)	104,298	(38,287,287)
Computers and equipment	(36,867,408)	(2,432,435)	375,313	(38,924,530)
Other depreciable property	<u>(3,771,292)</u>	<u>(199,257)</u>	<u>--</u>	<u>(3,970,549)</u>
Total accumulated depreciation and depletion	<u>(165,865,520)</u>	<u>(6,861,452)</u>	<u>492,821</u>	<u>(172,234,152)</u>
Total capital assets being depreciated, net	45,419,618	18,044,917	(1,215,183)	62,249,352
Non-depreciable capital assets:				
Land used in operations	9,354,983	--	--	9,354,983
Construction in progress	<u>15,622,794</u>	<u>10,192,249</u>	<u>(23,085,539)</u>	<u>2,729,504</u>
Capital assets, net	<u>\$ 70,397,395</u>	<u>\$ 28,237,166</u>	<u>\$ (24,300,722)</u>	<u>\$ 74,333,839</u>

Certain reclassifications have been made to the Corporation's 2016 financial statements to conform to the 2017 presentation. Such reclassifications have had no effect on prior year reported net position or operating results.

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**NOTE 5 – LAND USED IN OPERATIONS**

Land used for operations consist of all operational lands that are not licensed landfill phases. These lands are located to the West and East of the main landfill site. To the West these lands are largely comprised of forested areas while to the East they are comprised of the land that the Corporation's administrative building, tipping facility, scale houses and materials manufacturing facility currently occupy.

The Corporation is continually evaluating the intended use and corresponding valuation of these lands to ensure proper presentation in these financial statements. Based on its characteristics, land classifications in the financial records and the corresponding valuations may change over time based on changes in the Corporation's operations.

**NOTE 6 – LAND HELD FOR SALE**

During 1998, the Corporation received authorization from the Rhode Island General Assembly to develop certain property it had acquired through eminent domain. Initially, 162 acres of property situated South and East of the landfill were identified as potentially developable into an industrial park. Subsequently, additional developable acreage was reclassified to land held for development and additional parcels were acquired through 2006.

On February 4, 2015, the Corporation (seller) entered into an agreement for option and purchase of real property with an energy provider. The property is located on the east side of Green Hill Road and consists of approximately 16.9 acres. This option allows the energy provider to purchase the property at a purchase price of \$350,000 per acre. The Option Agreement shall expire on January 31, 2017 with a monthly payment of \$5,000 as consideration for the option starting on May 1, 2015. The purchaser may, at its option, extend the term in two, two-year increments ending January 31, 2021 with a \$1,000 increase in the monthly payment for each term. The option payments are to be credited against the purchase price. On June 15, 2016 the Option agreement was canceled and a new Option was executed. The new Option acknowledges the receipt of \$15,000 as consideration and states the Option shall expire on March 31, 2018, with no terms for extension.

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**NOTE 6 – LAND HELD FOR SALE (CONTINUED)**

Land held for sale consists of four lots. Three of the lots are located in the industrial park. Lot 7 is 7.03 acres and located on Green Earth Avenue, lots 1 and 3 are 8.68 and 3.10 acres, respectively, located on Recycle Road. The fourth lot is located on 68 and 70 Shun Pike and consists of 18.7 total acres, 16.9 of which are buildable acres. The land held for sale is carried at the lower of historical cost or fair value.

**NOTE 7 – LONG-TERM OBLIGATIONS**

In May 2013, the Corporation issued Resource Recovery System Revenue Bonds, Leachate Pretreatment Facility Project, Series 2013, in the aggregate principal amount of \$40,000,000. These bonds bear an interest rate of 2.78% with a maturity date of May 31, 2023; annual principal and interest installments are required in accordance with the schedule provided below. The Series 2013 may be prepaid, as a whole or in part, at any time at the option of the Corporation at a prepayment price equal to the principal amount, plus accrued interest plus a yield maintenance fee. The yield maintenance fee is calculated as the difference between the rate on United States Treasury securities with a maturity date of May 31, 2023 and the “cost of funds” component of the interest rate on the Series 2013 bonds.

Outstanding indebtedness is collateralized by all net revenues of the Corporation, certain restricted funds created pursuant to the bonds' issuance, and any revenues and property specifically conveyed, pledged, assigned or transferred by the Corporation as additional security for the bonds.

The Bond Indenture contains certain restrictive covenants. As of June 30, 2017 and 2016, the Corporation was in compliance with all bond indenture covenants.

Bonds payable as of June 30, 2017 and 2016 are summarized as follows:

	2017	2016
Resource Recovery System Revenue Bonds, Series 2013	\$ 25,317,529	\$ 29,142,861
Less: current portion	(3,932,789)	(3,825,332)
	\$ 21,384,740	\$ 25,317,529

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**NOTE 7 – LONG-TERM OBLIGATIONS (CONTINUED)**

Aggregate scheduled principal and interest payments due on the bonds through maturity are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 3,932,789	\$ 663,064	\$ 4,595,853
2019	4,043,265	552,590	4,595,855
2020	4,156,846	439,008	4,595,854
2021	4,273,616	322,237	4,595,853
2022	4,393,667	202,187	4,595,854
2023	<u>4,517,346</u>	<u>78,507</u>	<u>4,595,853</u>
	<u>\$ 25,317,529</u>	<u>\$ 2,257,593</u>	<u>\$ 27,575,122</u>

***Notes Payable***

As part of a legal settlement with the Town of Johnston (the Host Community) concerning odor conditions, RIRRC amended its Host Community agreement for the payment of a \$1,500,000 installment note over 14 years, equal to \$107,143 per year. As of June 30, 2017 and 2016 the amounts owed were \$1,178,581 and \$1,285,724, respectively. A second settlement was executed on January 27, 2016. Under this settlement, the Town of Johnston assigned certain rights it obtained under a settlement agreement with Broadrock Gas Services LLC to RIRRC. The rights assigned concerned the obligation of Broadrock to transfer the operations of the gas collection system to an independent third party operator and its enforcement rights associated with the obligation. For the assignment of these rights, RIRRC agreed to pay the Town a \$2,000,000 installment note over 14 years, equal to \$142,857 per year. As of June 30, 2017 and June 30, 2016 the amount owed were \$1,714,296 and \$1,857,153, respectively.

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**NOTE 7 – LONG-TERM OBLIGATIONS (CONTINUED)**

Changes in long-term obligations for the years ended June 30, 2017 and 2016 are as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Bonds payable	\$ 29,142,861	\$ --	\$ 3,825,332	\$ 25,317,529	\$ 3,932,789
Notes payable	<u>3,142,877</u>	<u>--</u>	<u>250,000</u>	<u>2,892,877</u>	<u>250,000</u>
	<u>\$ 32,285,738</u>	<u>\$ --</u>	<u>\$ 4,075,332</u>	<u>\$ 28,210,406</u>	<u>\$ 4,182,789</u>

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Bonds payable	\$ 32,863,670	\$ --	\$ 3,720,809	\$ 29,142,861	\$ 3,825,332
Notes payable	<u>1,392,877</u>	<u>2,000,000</u>	<u>250,000</u>	<u>3,142,877</u>	<u>250,000</u>
	<u>\$ 34,256,547</u>	<u>\$ 2,000,000</u>	<u>\$ 3,970,809</u>	<u>\$ 32,285,738</u>	<u>\$ 4,075,332</u>

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**NOTE 8 – HOST COMMUNITY AGREEMENT**

In accordance with State law, the Corporation is required to make payments to the Town of Johnston, Rhode Island (the “Town”), the community where its landfill is sited (the “Host Community”). On April 2, 1996, the Corporation's Board ratified a comprehensive agreement with the Host Community which supersedes substantially all prior agreements between them and provides for the unimpeded continuation of the Corporation's operations in the Town. The comprehensive agreement, which remains in effect as long as the landfill is owned and operated, provided for the immediate payment of \$3,150,000 to the Host Community in full settlement of all outstanding amounts. The comprehensive agreement also provides for annual payments to the Host Community in the base amount of \$1,500,000 plus 3.5% of the Corporation's annual gross revenue, as defined in the comprehensive agreement, commencing April 1, 1996. The base amount is subject to a 10% escalator every five years beginning April 1, 2001. The comprehensive agreement also calls for the waiver of substantially all tipping fees and municipal solid waste disposal fees from the Host Community for the agreement's term. Tipping fees waived for the years ended June 30, 2017 and 2016 totaled approximately \$732,414 and \$707,629, respectively. Amounts incurred under the agreement for the years ended June 30, 2017 and 2016 were approximately \$4,013,333 and \$3,691,227, respectively, of which approximately \$999,341 and \$1,004,664 remained unpaid and is included in accounts payable and accrued expenses as of June 30, 2017 and 2016, respectively. Additionally, beginning in fiscal year 2006, the Corporation was required to collect and remit to the Town a \$3 per vehicle surcharge, as approved by Rhode Island General Assembly, for all non-municipal landfill customers. Surcharge amounts collected and remitted to the Town totaled approximately \$389,294 and \$407,916 for the years ended June 30, 2017 and 2016, respectively.

**NOTE 9 – SITE LEASE AND LANDFILL GAS DELIVERY AND RELATED AGREEMENTS**

On May 1, 1987, the Corporation entered into a 30-year lease agreement with a lessee for royalty payments to the Corporation based on sales of methane gas recovered by the lessee from the Corporation's landfill site. In general, royalty payments to the Corporation were 15% of net revenues, as defined, for the first 15 years of operation and vary from 15% to 18% thereafter depending on production.

On August 1, 2003, the Corporation entered into a revised methane gas royalty agreement whereby the Corporation agreed to subcontract the management and operation of its gas collection system. The Corporation agreed to pay the operator a \$100,000 per year management fee and provide funding for all costs in excess of revenues, if any, incurred by the operator. In exchange, the Corporation receives 15% of net revenues from the sale of landfill gases, as defined by the revised agreement, and 15 cents per million BTU, escalated annually, for each kilowatt per hour generated. In addition, the Corporation entered into an Attribute Agreement with the operator whereby the Corporation receives 15% of the sale of environmental attributes, such as renewable energy credits. The revised methane gas royalty agreement expires when the operation of the gas collection facility to generate power is no longer economically feasible to continue.

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**NOTE 9 – SITE LEASE AND LANDFILL GAS DELIVERY AND RELATED AGREEMENTS**  
**(CONTINUED)**

On November 17, 2008, the Corporation entered into an amended and restated site lease and landfill gas delivery agreement. Effectively, the site lease and the amended gas services agreement supersede the terms and rights of the prior agreements described above. However, the amended site lease agreement stipulates that payments to the Corporation will continue to be made in accordance with the terms of the 1987 and 2003 agreements, thus remaining unchanged until the point in time when the lessee acquires the Corporation's gas collection system and assumes full responsibility for all costs to operate and maintain the system. At such time, the methodology for calculating royalty payments will change, resulting in a significant reduction in royalty revenues. Monthly royalty payments to the Corporation will be calculated as a) the number of hours in a month, multiplied by b) 12 megawatts per hour, multiplied by c) net revenues for the month, divided by d) the total number of megawatt-hours of electricity produced. The monthly royalty payment due to the Corporation is reduced on a decreasing percentage basis each year from 100% in years 1 through 5 to 0.0% in year 10 and thereafter and is further offset by a monthly credit to the operator on a dollar for dollar basis up to a maximum of \$416,667 a month.

In conjunction with the amended and restated site lease and landfill gas delivery and agreement, the Corporation and the lessee also entered into a purchase and sale agreement for the Corporation's gas collection system. The sales agreement stipulated that the lessee could purchase the Corporation's rights, title and interest in the gas collection system for the price of \$1.00. The sale was consummated in fiscal year 2011 and ownership of the Corporation's gas collection system was transferred to the lessee/owner.

The loss on the sale of the gas collection system is offset by future decreases in the Corporation's operating costs in addition to a reduction in the Corporation's liability for landfill closure and post-closure care. During FY2013, the owner of the gas collection system completed the construction of a landfill gas to energy facility. On the first date on which the plant makes commercial deliveries of electric power the responsibility for all costs to operate and maintain the gas collection system, including replacement items for the gas system, expansion of or capital improvements to the gas system transfers to the owner. The Corporation estimated this date to be March 1, 2013, and accordingly only recorded expenditures relating to the gas collection system through that date. These agreements remain in full force and effect so long as the owner or any affiliate is capable of generating electric energy from the landfill gas on an economic basis. Accordingly and as more fully disclosed in Note 10, the Corporation adjusted its estimated landfill closure and post-closure liability at June 30, 2012 and subsequent periods to reflect the transfer of responsibilities for these costs.

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**NOTE 9 – SITE LEASE AND LANDFILL GAS DELIVERY AND RELATED AGREEMENTS**  
**(CONTINUED)**

On September 25, 2014, a Non-Binding Memorandum of Understanding was reached in which RIRRC would pay Broadrock \$1,250,000 as a partial settlement relating to the operation of the gas collection system, with a remainder of \$1,250,000 to be paid upon execution of a definitive agreement. On July 11, 2016, RIRRC filed a complaint in U.S. District Court alleging breach of settlement agreement to engage a third-party independent contractor to design, build, operate, maintain and repair the gas collection system and to comply with all compliance, reporting and permitting obligations directly connected to the gas collection system.

**NOTE 10 – COMMITMENTS**

**A. CONTRACT FOR SEWER AND WATER FACILITIES**

On September 27, 1988, the Corporation entered into an agreement with the City of Cranston, Rhode Island (the “City”), whereby the City agreed to furnish sewer and water services to the Corporation's facilities in Johnston, Rhode Island. In August 1998, the Corporation and the City entered into a revised agreement.

Under the terms of the revised agreement, the Corporation was required to pay an initial impact fee and was required to pay sewer assessments, sewer surcharges and industrial pretreatment fees incurred at the same rates paid by comparable industrial sewer users located in the City of Cranston, Rhode Island (the “City”). The Corporation does not owe any impact fees for water supply capacity and will not owe any impact fees for utilization of 400,000 gallons per day (average daily flow “ADF”) of sewer capacity to be reserved by the City (at a maximum rate not to exceed 600 gallons per minute) in its sewage treatment facilities and its sewage collection and pumping station facilities. However, the Corporation agreed to pay the cost of any applicable impact fees, which might be incurred as a result of the Corporation's need to transmit in excess of 400,000 gallons per day ADF of sewer capacity, or if the Corporation has a need to exceed the maximum rate of discharge beyond 600 gallons per minute, or any increase in biological or chemical loading above stated pretreatment standards.

**B. LICENSED LANDFILL AREA**

The current licensed landfill consists of areas known as Phases I, II, III, IV, V and VI. The capacity of Phase I was reached in May 1993. The capacities of Phases II and III were reached in December 2002. The capacity of Phase IV was reached during fiscal year 2012. Phases V and VI are active.

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**NOTE 10 – COMMITMENTS (CONTINUED)**

***B. LICENSED LANDFILL AREA (CONTINUED)***

A final construction certification report for Phase V Area IA was approved by the Rhode Island Department of Environmental Management (“RIDEM”) on September 24, 2004, which allowed the Corporation to commence disposal activities in that area. Subsequently, approvals of construction certifications for Phase V Area IB, IC and ID have been received. Based on estimates by the Corporation’s engineers, approximately 93.69% of the capacity for Phase V has been used as of June 30, 2017 and this phase has temporarily stopped accepting waste. On February 8, 2011 a permit was approved by the RIDEM to operate Phase VI of the Central Landfill. Phase VI started accepting waste in December 2015 and is at approximately 7.08% of capacity as of June 30, 2017.

***C. LANDFILL CLOSURE AND POST-CLOSURE***

The Environmental Protection Agency established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the Corporation has been segregated into six distinct phases. Phases I, II and III were closed by the Corporation in prior years. While Phase IV reached capacity during fiscal year 2012, with final capping completed during fiscal year 2014. In 2005, the Corporation began landfilling in Phase V, which is near capacity and has temporarily stopped accepting waste, as of December 2015, the Corporation began accepting waste in Phase VI.

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**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 10 – COMMITMENTS (CONTINUED)**

**C. LANDFILL CLOSURE AND POST-CLOSURE**

A liability for closure and post-closure care as of June 30, 2017 and 2016 of \$74,276,343 and \$69,793,350, respectively, has been recorded in the accompanying statements of net position, as summarized by Phases below.

	2017	2016
Phase I	\$ 463,591	\$ 494,073
Phases II and III	7,842,011	8,178,942
Phase IV	11,364,792	10,088,063
Phase V	47,448,792	49,219,762
Phase VI	6,559,631	1,597,236
Other	597,526	215,274
	\$ 74,276,343	\$ 69,793,350

As of June 30, 2017, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste remaining is as follows:

	Estimated remaining costs to be recognized	Estimated capacity used	Estimated remaining years for accepting waste
Phase V	\$ 3,195,550	93.69%	7 months
Phase VI	\$ 86,027,007	7.08%	21.6 years

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**NOTE 10 – COMMITMENTS (CONTINUED)**

***C. LANDFILL CLOSURE AND POST-CLOSURE (CONTINUED)***

As of June 30, 2017 the Corporation revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a \$660,765 decrease of the corresponding liability from \$96,517,220 at June 30, 2016 to \$95,856,455 at June 30, 2017 and was primarily attributable to leachate flows associated with improved leachate flow data from the recently opened leachate treatment facility. As more fully described in Note 9, *Site lease and landfill gas delivery and related agreements*, the Corporation entered into a series of agreements in November 2008 granting a third party certain rights in order to construct, develop and operate a landfill gas-fired electric generation facility at the central landfill. Construction of the new gas to energy facility began in November 2010 and was completed during fiscal year 2013. Once the facility became operational the responsibility for all costs to operate and maintain the gas collection system, including replacement items, expansion of or capital improvements to the gas system transfers to the third party owner. Costs for operation and maintenance of the gas collection system remain the responsibility of the third party owner until it is incapable of generating electric energy from the landfill gas on an economic basis. The Corporation utilized gas flow projections generated by an outside engineering firm to estimate the approximate number of years the new facility could continue to generate electricity on an economic basis. This projection is reviewed on an annual basis and updated based upon new information.

Amounts provided for closure and post-closure care are based on current costs. These costs may be adjusted each year due to changes in the closure and post-closure care plan, inflation or deflation, technology, or applicable laws or regulations. It is reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted assets held in trust in the accompanying statements of net position as of June 30, 2017 and 2016 is \$51,010,126 and \$46,977,541, respectively, placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV, V and VI. The Corporation plans to make additional trust fund contributions each year to enable it to satisfy these future costs.

***D. POLLUTION REMEDIATION OBLIGATIONS***

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**NOTE 10 – COMMITMENTS (CONTINUED)**

***D. POLLUTION REMEDIATION OBLIGATIONS (CONTINUED)***

Changes in the pollution remediation obligations for the years ended June 30, 2017 and 2016 are as follows:

Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
<u>\$ 26,939,144</u>	<u>\$ --</u>	<u>\$ 4,761,506</u>	<u>\$ 22,177,638</u>	<u>\$ 1,135,463</u>
Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
<u>\$ 21,184,244</u>	<u>\$ 5,754,900</u>	<u>\$ --</u>	<u>\$ 26,939,144</u>	<u>\$ 1,411,611</u>

In prior years, the EPA issued administrative orders requiring the Corporation to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, the Corporation entered into a Consent Decree with the EPA concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The balance of the trust fund totaled \$43,666,250 and \$43,807,108 as of June 30, 2017 and 2016, respectively.

In 2004, the Corporation began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The Corporation has recorded a liability for future remediation costs of approximately \$22,177,638 and \$26,939,144 as of June 30, 2017 and 2016, respectively.

Other pollution remediation obligations:

The Corporation is the owner of several properties adjacent to its landfill operations classified as land held for operations. The Corporation is obligated to remediate one of these parcels. The Corporation has recorded a liability for future remediation costs of approximately \$597,526 and \$216,761 as of June 30, 2017 and 2016, respectively, which is included in pollution and remediation obligations on the statement of net position.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 10 – COMMITMENTS (CONTINUED)**

***E. GAS SYSTEM COMMITMENTS***

In August 2010, the Corporation entered into an agreement for the construction and operation of a sulfur treatment system for the purpose of reducing the levels of sulfur in the gas collection system. Once the sulfur treatment system is placed in operation, the Corporation is committed to reimburse the operator for 50% of the operator's direct, unallocated costs not to exceed \$300,000 in any one calendar year (the year over year increase shall be the lesser of the actual cost increase for said calendar year or the prior year's actual costs increased by the annual CPI adjustment factor). In addition, the Corporation will share 50% of the cost of major maintenance or future capital expenditures relating to the system.

The agreement further committed the Corporation to provide funding not to exceed \$4,500,000 for the construction of and upgrades to the existing gas collection system. The Corporation has commenced funding this obligation and has made payments in the amount of \$4,469,479 as of fiscal years ended June 30, 2017 and 2016.

***F. GLASS PROCESSING AGREEMENT***

On October 29, 2014, the Corporation (Landlord) and a glass recycle and processor (Tenant) entered into an agreement in which the glass recycler would lease the demised premises, formally known as the C&D Facility, with existing improvements on approximately four (4) acres. This demised premises shall be used for glass recycling and processing. The lease is for a term of 5 years, with a 3 year renewal option. Annual fixed rent is \$1.00. Additionally, Tenant has a right of first refusal on approximately 7 acres of vacant land (lot 7) owned by the Corporation located on Green Earth Avenue in the Lakeside Commerce Center in Johnston, Rhode Island. The glass will be marketed and sold by RIRRC and profits will be divided 50% between RIRRC and the glass recycler.

**NOTE 11 – SETTLEMENTS**

In December 2011, the Town of Johnston initiated a civil action against the Corporation and the third-party owner/operator of the gas collection system for odor conditions existing at the Central Landfill. In April 2013, the Town and Corporation entered into a settlement agreement and release whereby the Town agreed to voluntarily dismiss the Corporation from the lawsuit in exchange for the Corporation agreeing to execute an amendment to the Host Community Agreement between the parties. The amendment requires the Corporation to 1) make a one-time lump sum payment of \$1,500,000 to the Town which was paid December 2013 and 2) make annual payments of \$107,143 to the Town for the next fourteen years. The balance outstanding at June 30, 2017 and 2016 is \$1,178,592 and \$1,285,714, respectively, and is included in bonds payable and notes payable on the statement of net position. See Note 7 for additional disclosure.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 11 – SETTLEMENTS (CONTINUED)**

On January 27, 2016, the Town of Johnston and RIRRC reached a settlement in which the Town of Johnston would assign certain rights it obtained with a settlement agreement with Broadrock Gas Services, LLC to RIRRC. The rights the Town assigned concern the obligation of Broadrock to transfer the operations of the gas collection system to an independent third party operator and its associated enforcement rights. For the assignment of these rights, RIRRC agreed to pay the Town a \$2,000,000 installment note over 14 years, equal to \$142,857 per year. As of June 30, 2017 and 2016 the amount owed is \$1,714,286 and \$1,857,143, respectively, which is included in bonds payable and notes payable on the statement of net position. See Note 7 for additional disclosure.

On June 30, 2016, RIRRC and Broadrock Gas Services entered into a settlement with the Conservation Law Foundation (CLF) over alleged air quality and permit violations in which both RIRRC and Broadrock will each pay the CLF \$350,000 for a total settlement of \$700,000. Under this agreement \$225,000 will be towards attorney fees, \$25,000 to engage a consultant to recommend gas system improvements and \$450,000 to implement the consultant's recommendations. The settlement liability as of June 30, 2017 and 2016 is \$225,000 and \$350,000, respectively and is included in accounts payable and accrued expenses on the statement of net position.

**NOTE 12 – CONTINGENCIES, RISKS AND UNCERTAINTIES**

The Corporation is involved in various routine litigation and is subject to claims incident to its business. While the ultimate outcome of these legal proceedings cannot be predicted with certainty, management believes that their resolution will not have a material adverse effect on the Corporation's financial statements.

Various aspects of the contractual amounts due to and from the third party operator/owner of the gas collection system are being contested and litigated. Management has made the appropriate estimates of probable settlements wherever possible and has recorded these in the financial statements.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 12 – CONTINGENCIES, RISKS AND UNCERTAINTIES (CONTINUED)**

*CONCENTRATIONS*

Approximately 12.2% and 17.9% of the Corporation's fiscal year 2017 and 2016, respectively, revenues were provided by a single customer. The Corporation has executed a contract with this customer guaranteeing 140,000 tons of solid waste for fiscal year 2018.

**NOTE 13 – RISK MANAGEMENT**

The Corporation is exposed to various risks of loss related to torts, errors and omissions, workers' compensation and environmental pollution claims for which the Corporation carries commercial insurance. No claims have exceeded coverage during the past three years.

**NOTE 14 – DEFINED CONTRIBUTION PLAN**

The Corporation sponsors a single-employer defined contribution money purchase pension plan covering all employees of the Corporation. Employees are eligible to participate on the date of their employment. Participants are automatically enrolled in the plan with a mandatory 5% salary deferral amount.

Effective April 1, 2009, the Plan was amended and restated with the adoption of a prototype plan document, and the name was changed to the Rhode Island Resource Recovery Corporation 401(K) Profit Sharing Plan. The amended and restated Plan is a single-employer defined contribution plan covering all employees of the Corporation, and did not require mandatory participant contributions.

On August 2, 2015, the plan was further restated from a 401(K) profit sharing plan to a 401(a) profit sharing plan. A Voluntary Correction Plan (VCP) and individual determination letter was submitted to the IRS on August 31, 2015 to address certain deficiencies in the original 401(K) plan.

RIRRC pays this contribution into the 401(a) plan for the participants. Because the law treats this contribution for income tax purposes as an employer contribution, it will be contributed to the 401(a) Plan on the participants' behalf on a pre-tax basis 'picked up'. The participants will not be able to make pre-tax elective deferral contributions to the Plan on or after August 2, 2015. Participants are immediately 100% vested in their contributions to the plan and earnings thereon. The plan provides that the Corporation contribute the sum of (1) 8.56% of the participant's total annual compensation, plus (2) the FICA tax rate percentage (7.65%) up to the Social Security Taxable Wage Base of \$118,500 for both plan years 2016 and 2017. The employer FICA portion of contributions is made in lieu of participant social security administration withholdings.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 14 – DEFINED CONTRIBUTION PLAN (CONTINUED)**

On January 15, 2016, the Internal Revenue Service accepted the Voluntary Correction Plan as submitted. A favorable determination letter was received on September 27, 2016.

The Corporation contributed approximately \$1,366,000 and \$1,343,000 to the Plan during the years ended June 30, 2017 and 2016, respectively.

As of June 30, 2017 and 2016, there were no securities of the Corporation or loans to the Corporation included in the Plan's assets.

**NOTE 15 – OTHER POST-EMPLOYMENT BENEFITS**

***PLAN DESCRIPTION***

The Corporation administers an employee Retiree Healthcare Plan (the “Plan”), which is a single-employer defined benefit healthcare plan. The Plan provides healthcare insurance benefits for eligible retirees through the Corporation’s group health insurance plan, which covers both active and retired members. Under the terms of the Plan, the Corporation provides up to a maximum of two years health insurance coverage upon retirement from employment. Benefit provisions are established by the governing body of the Corporation and may be amended at any time. Effective December 31, 2008, the Corporation amended the Plan to exclude all future employees hired by the Corporation. The Plan does not issue a publicly available financial report and is not included in the financial statements of another entity.

***FUNDING POLICY***

The Corporation funds the Plan on a pay-as-you-go basis.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**NOTE 15 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

*ANNUAL OPEB COST AND NET OPEB OBLIGATION*

The Corporation's annual OPEB cost (expense) is calculated based on the annual required contribution ("ARC"), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Corporation's annual OPEB cost, the amount actually contributed to the Plan, and changes in the Corporation's net OPEB obligation for the years ended June 30, 2017 and 2016.

	2017	2016
Annual required contribution	\$ 49,585	\$ 49,585
Interest on net OPEB obligation	13,281	13,031
Adjustment to annual required contribution	(35,586)	(34,917)
Annual OPEB cost	27,280	27,699
Contributions made	7,827	15,213
Increases in net OPEB obligation	19,453	12,486
Net OPEB obligation, beginning of year	664,044	651,558
Net OPEB obligation, end of year	\$ 683,497	\$ 664,044

The Corporation's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2017 and 2016 is as follows:

	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	\$ 27,280	28.7%	\$ 683,497
2016	\$ 27,699	54.9%	\$ 664,044

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 15 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

***FUNDED STATUS AND FUNDING PROGRESS***

The funded status of the Plan as of July 1, 2014 (the date of the most recent actuarial valuation) was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Unit Credit Actuarial Cost Method (B)	(Overfunded) Unfunded AAL (UAAL) (B-A)	Fund Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
\$ --	\$ 378,894	\$ 378,894	0.00%	\$ 7,562,482	5.01%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the Corporation are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

***ACTUARIAL METHODS AND ASSUMPTIONS***

Projections of benefits are based on the substantive plan and includes the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Corporation and the plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the Corporation and plan members in the future. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The Corporation has a valuation performed triennially, the most recent of which was performed in 2014.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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**NOTE 15 – OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)**

*ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)*

The significant methods and assumptions for the 2014 valuation were as follows:

Valuation date:	July 1, 2014
Actuarial cost method:	Unit Credit Actuarial Cost Method
Amortization method:	Closed, Level Dollar
Remaining amortization period:	23 years, open
Asset valuation period:	Market value
Actuarial assumptions:	
Discount rate	2.00%
Healthcare cost trend rate	8.00% initial 5.00% final
Dental cost trend rate	4.00%

The significant methods and assumptions for the 2011 valuation were as follows:

Valuation date:	July 1, 2011
Actuarial cost method:	Projected Unit Cost Method
Amortization method:	Level Dollar Amount
Remaining amortization period:	30 years, open
Asset valuation period:	Market value
Actuarial assumptions:	
Discount rate	2.00%
Healthcare cost trend rate	11.00% initial 5.00% final

**NOTE 16 – RECLASSIFICATIONS**

Certain reclassifications have been made to the Corporation's 2016 financial statements to conform to the 2017 presentation. Such reclassifications have had no effect on prior year reported net position or operating results.

**NOTE 17 – SUBSEQUENT EVENTS**

The Corporation has evaluated all subsequent events through October 4, 2017, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements have been identified.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF RHODE ISLAND)**

**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS – RETIREE HEALTHCARE PLAN**

**JUNE 30, 2017**

Date of Actuarial Valuation *	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) - Projected Unit Cost Method (B)	(Overfunded) Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
July 1, 2008	\$ --	\$ 765,751	\$ 765,751	0.0%	\$6,187,159	12.4%
July 1, 2011	\$ --	\$ 740,069	\$ 740,069	0.0%	\$6,758,993	10.9%
July 1, 2014	\$ --	\$ 378,894	\$ 378,894	0.0%	\$7,562,482	5.0%

\* The Corporation is required to obtain an actuarial valuation at least triennially.

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**SCHEDULE OF INVESTMENTS AND DEPOSITS**

**JUNE 30, 2017**

**SCHEDULE A**

	Carrying Value	Demand Deposits	Other
Cash accounts	\$ 652,176	\$ 652,176	\$ --
Cash equivalents	38,648,819	2,483,736	36,165,083
Investments	93,086,759	--	93,086,759
	\$ 132,387,754	\$ 3,135,912	\$ 129,251,842

Investments and deposits as  
presented on the Statement of Net  
Position at June 30, 2017

Cash and cash equivalents	\$ 35,227,642
Cash and cash equivalents - restricted, noncurrent assets	2,483,736
Held in trust - restricted, noncurrent assets	94,676,376
	\$ 132,387,754

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**SCHEDULE OF INVESTMENTS AND DEPOSITS (CONTINUED)**

**JUNE 30, 2016**

	Carrying Value	Demand Deposits	Other
Cash accounts	\$ 215,895	\$ 215,895	\$ --
Cash equivalents	34,213,146	2,473,206	31,739,940
Investments	90,784,144	--	90,784,144
	\$ 125,213,185	\$ 2,689,101	\$ 122,524,084
Investments and deposits as presented on the Statement of Net Position at June 30, 2016			
Cash and cash equivalents	\$ 31,955,330		
Cash and cash equivalents - restricted, noncurrent assets	2,473,206		
Held in trust - restricted, noncurrent assets	90,784,649		
	\$ 125,213,185		

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**STATEMENTS OF NET POSITION**

**JUNE 30, 2017**

**SCHEDULE B**

**Assets**

**Current Assets**

Cash and cash equivalents	\$ 35,227,642
Receivables (net)	7,571,253
Inventories	2,982,164
Other assets	461,865
<b>Total Current Assets</b>	46,242,924

**Noncurrent Assets**

**Restricted Assets:**

Cash and cash equivalents	2,483,736
Investments	94,676,376

Land held for sale	3,886,564
Capital Assets - nondepreciable	16,374,705
Capital Assets - depreciable (net)	60,796,138
Other Assets, Net of Amortization	609,400

<b>Total Noncurrent Assets</b>	178,826,919
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<b>Total Assets</b>	225,069,843
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**Liabilities**

**Current Liabilities**

Accounts payable	9,882,795
Other liabilities	1,604,157
Current portion of long-term debt	4,182,789

<b>Total Current Liabilities</b>	15,669,741
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**Noncurrent Liabilities**

Net OPEB Obligation	683,497
Other Liabilities	95,284,706
Notes Payable	2,642,877
Bonds Payable	21,384,740

<b>Total Noncurrent Liabilities</b>	119,995,820
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<b>Total Liabilities</b>	135,665,561
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**Net Position**

Net invested in capital assets	60,045,498
Restricted	2,062,011
Unrestricted	27,296,773

<b>Total Net Position</b>	\$ 89,404,282
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**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**STATEMENTS OF CHANGES NET POSITION**

**YEAR ENDED JUNE 30, 2017**

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**SCHEDULE C**

<b>Expenses</b>	\$ 47,636,898
<b>Program Revenues</b>	
Charges for services	<u>59,134,136</u>
<b>Total Program Revenues</b>	<u>59,134,136</u>
<b>Net (Expenses) Revenues</b>	<u>11,497,238</u>
<b>General Revenues</b>	
Interest and investment earnings	122,362
Miscellaneous revenue	<u>563,146</u>
<b>Total General Revenue</b>	<u>685,508</u>
<b>Change in Net Position</b>	<u>12,182,746</u>
<b>Total Net Position - Beginning</b>	<u>77,221,536</u>
<b>Total Net Position - Ending</b>	<u><u>\$ 89,404,282</u></u>

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**SCHEDULE OF DEBT SERVICE TO MATURITY, LONG-TERM DEBT –  
BONDS ONLY**

**JUNE 30, 2017**

**SCHEDULE D**

Fiscal Year Ending June 30	Principal	Interest
2018	\$ 3,932,789	\$ 663,064
2019	4,043,265	552,590
2020	4,156,846	439,008
2021	4,273,616	322,237
2022-2023	<u>8,911,013</u>	<u>280,694</u>
	<u>\$ 25,317,529</u>	<u>\$ 2,257,593</u>

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**SCHEDULE OF CHANGES IN LONG-TERM DEBT**

**YEAR ENDED JUNE 30, 2017**

**SCHEDULE E**

	Beginning Balance	Additions	Reductions	Balance	Amounts Due One Year	Amounts Due Thereafter
Bonds payable	\$ 29,142,861	\$ --	\$ 3,825,332	\$ 25,317,529	\$ 3,932,789	\$ 21,384,740
Bonds payable	<u>29,142,861</u>	<u>--</u>	<u>3,825,332</u>	<u>25,317,529</u>	<u>3,932,789</u>	<u>21,384,740</u>
Note Payable	3,142,877	--	250,000	2,892,877	250,000	2,642,877
Net OPEB obligation	664,044	27,280	7,827	683,497	--	683,497
Compensated absences	419,151	15,731	--	434,882	434,882	--
	<u>4,226,072</u>	<u>43,011</u>	<u>257,827</u>	<u>4,011,256</u>	<u>684,882</u>	<u>3,326,374</u>
Reported as other liabilities:						
Pollution remediation	26,939,144	--	4,761,506	22,177,638	1,135,463	21,042,175
Landfill closure and post-closure care	69,793,350	4,482,993	--	74,276,343	33,812	74,242,531
Other liabilities	<u>96,732,494</u>	<u>4,482,993</u>	<u>4,761,506</u>	<u>96,453,981</u>	<u>1,169,275</u>	<u>95,284,706</u>
	<u>\$ 130,101,427</u>	<u>\$ 4,526,004</u>	<u>\$ 8,844,665</u>	<u>\$ 125,782,766</u>	<u>\$ 5,786,946</u>	<u>\$ 119,995,820</u>

**RHODE ISLAND RESOURCE RECOVERY CORPORATION  
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**SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES**

**JUNE 30, 2017**

**SCHEDULE F**

Date paid	Payee	Purpose	Amount
7/19/2016	Kristin Littlefield	Resource Recycling Conference	\$540
7/19/2016	Krystal Noiseux	NAAEE Annual Conference	1,020
8/1/2016	Rob Lough	SWANA Award, Airline Reservations	400
8/29/2016	Rob Lough	SWANA Award Convention	1,023
8/29/2016	Kristin Littlefield	SWANA Wastecon Conference	589
8/31/2016	Kristin Littlefield	Resource Recycling Conference	573
9/27/2016	Reuse Institute	Reuse Conex 2016 Conference Registration	276
9/30/2016	Carol Bjartmarz	Mileage Reimbursement	261
10/27/2016	Jim Donovan	Information Technology Training	1,936
10/27/2016	Katherine Hypolite	Reuse Conex 2016 Conference Registration	637
10/27/2016	Lori Perron	ISM 2017 Conference	1,809
10/27/2016	Krystal Noiseux	NAAEE Annual Conference	1,181
10/31/2016	Chris Jocelyn	Strategic HR Conference NH 10/23-25	253
10/31/2016	Chris Jocelyn	Mileage Reimbursement	225
11/8/2016	Marcel Lussier	NERC Conference 11/1-11/2	236
12/31/2016	Carol Bjartmarz	Mileage Reimbursement	249
1/18/2017	Lori Perron	ISM 2017 Conference	372
3/6/2017	Rob Lough	Mileage Reimbursement	215
3/21/2017	Rob Lough	Mileage Reimbursement	246
4/17/2017	Chris Jocelyn	HR Strategic Conference, Hotel Room Deposit	247
4/24/2017	Rockland Trust	Hotel, Augusta, ME OSHA Certification	703
4/27/2017	Carol Bjartmarz	Mileage Reimbursement	390
4/28/2017	Rob Lough	OSHA Certification	550
5/31/2017	Jim Dwyer	Mileage Reimbursement	303
			<u>14,234</u>
Summary of other expenses under \$200 each:			
		Mileage	2,931
		Miscellaneous (Parking, Tolls, Etc.)	410
			<u>3,341</u>
		Total	<u>\$ 17,575</u>

**RHODE ISLAND RESOURCE RECOVERY CORPORATION**  
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**SCHEDULE OF TRAVEL AND ENTERTAINMENT EXPENSES**

**JUNE 30, 2016**

**SCHEDULE F**

Date paid	Payee	Purpose	Amount
7/29/2015	Krystal Noiseux	NAAEE Conference	\$ 820
7/30/2015	Rockland Trust	SWANA Training, Southwest Airlines, Orlando, Florida	321
8/31/2015	Kristin Littlefield	SWANA Training, Orlando, Florida	1,020
9/30/2015	Kristin Littlefield	Maine Compost School 9/20-9/26	585
9/30/2015	Kristin Littlefield	Mileage Reimbursement	372
10/22/2015	Carol Bjartmarz	Mileage Reimbursement	436
10/29/2015	Krystal Noiseux	Mileage Reimbursement	339
10/29/2015	Chris Jocelyn	Strategic HR Conference	233
10/29/2015	Chris Jocelyn	Mileage Reimbursement	254
10/30/2015	Krystal Noiseux	NAAEE Conference Hotel/ Meals	773
10/30/2015	Jim Donovan	IT Training, 10/11-10/17	474
12/31/2015	Carol Bjartmarz	Mileage Reimbursement	338
12/31/2015	Sarah Reeves	Mileage Reimbursement	270
2/29/2016	Jim Dwyer	Mileage Reimbursement	233
2/29/2016	Michael OConnell	Luncheon meeting with Waste Zero	275
3/31/2016	Kevin Lavallee	Mileage Reimbursement	232
4/13/2016	Chris Jocelyn	Strategic HR Management Conference	1,108
4/30/2016	Rob Lough	Mileage Reimbursement	323
5/24/2016	Rockland Trust	Airfare for Program Recycle Across America	845
6/30/2016	Rockland Trust	SWANA Training, Southwest Airlines, Indianapolis, Indiana	281
6/30/2016	Carol Bjartmarz	Mileage Reimbursement	643
			<u>10,175</u>
Summary of other expenses under \$200 each:			
		Mileage	4,839
		Miscellaneous (Parking, Tolls, Etc.)	203
			<u>5,042</u>
		Total	<u><u>\$ 15,217</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board Members  
**Rhode Island Resource Recovery Corporation**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Rhode Island Resource Recovery Corporation (a component unit of the State of Rhode Island), as of and for the year ended June 30, 2017 and the related notes to the financial statements, and have issued our report thereon dated October 4, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Rhode Island Resource Recovery Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rhode Island Resource Recovery Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rhode Island Resource Recovery Corporation's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Rhode Island Resource Recovery Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Marcum LLP*

Providence, RI  
October 4, 2017